



Gas DSR Methodology Consultation Report

July 2023



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This report documents the outcome of NGT's recent consultation undertaken in respect of the Gas DSR Framework and Methodology Document (DSR Methodology), which closed on 14 July 2023. This report and the preceding consultation have been prepared in accordance with Special Condition 9.22 of the NTS Licence.

Background

DSR provides an additional 'route to market' through which large gas consumers can offer to reduce their gas demand at times of national gas supply shortage in return for payments which they define. The DSR Methodology sets out the details of the DSR products and how they may be procured and deployed.

Special Condition 9.22.4 of the NTS Licence requires NGT to review the DSR Methodology in consultation with the industry at least once in every period of two Regulatory Years. The last review was completed in December 2022.

Special Condition 9.22.6 of the NTS Licence requires NGT to send to the Authority within 7 days of completion of a consultation on the DSR Methodology:

- a) a report on the outcome of the review;
- b) a statement of any proposed revisions to the Demand Side Response Methodology that the licensee (having regard to the outcome of the review) reasonably considers would better achieve the Demand Side Response Methodology principles; and
- c) any written representations (including proposals for revising the statement that have not been accepted by the licensee) that were received from interested parties during the consultation process and have not been withdrawn.

The present review was initiated to:

- Align the DSR Methodology with reforms proposed by UNC Modifications [0844](#) 'Enabling Direct Contractual Arrangements with Consumers for Demand Side Response' and [0845](#) 'Enhancements to Demand Side Response Arrangements including a D-5 Product, for which the formal consultation period closed on 13th July 2023;
- Amend the assessment criteria for DSR Options and increase the aggregate level of DSR Option payments beyond which NGT would need to seek Authority approval prior to acceptance;
- Amend the company name from National Grid NTS to National Gas Transmission; and

- Make other ‘housekeeping’ changes.

Views Received

We received no responses to this DSR Methodology consultation, although note that 9 consultation responses were submitted in respect of Modification 0844 and 7 responses were submitted in respect of Modification 0845, which either expressed support or qualified support, following which the July 2023 UNC Panel unanimously recommended implementation.

NGT Views

Special Condition 9.22.6 requires that this consultation report contains a statement of any proposed revisions to the DSR Methodology that the licensee (having regard to the outcome of the review) reasonably considers would better achieve the DSR principles that contained in paragraph 9.22.3.

The proposed revisions to the DSR Methodology are submitted as a separate document with this consultation report in mark-up form and in summary seek to enable NGT to:

- Establish DSR option arrangements directly with consumers as well with shippers;
- Extend eligibility to participate in gas DSR to Class 2 consumers where DSR is offered by the shipper;
- Amend the method of determination of the quantity of demand reduction under a DSR Option from a ‘reduce by’ to a ‘reduce to’ approach;
- Introduce a D-5 DSR product;
- Include additional criteria for NGT’s assessment of DSR Options;
- Increase the materiality threshold for aggregate annual DSR Option payments beyond which NGT would need Authority consent to accept from £5m to £36m¹, reflecting NGT’s ambition to grow the gas DSR market; and
- Clarify the treatment of DSR exercise costs, depending on the product and counterparty.

In our view, these amendments better facilitate the following DSR principles:

“(e) promotes and further facilitates parties making Demand Side Response Offers to the licensee through open and transparent market-based arrangements.”

¹ The proposed increase has been calculated by scaling up the cost of DSR options accepted in the 2022/23 DSR options tender based on a theoretical aggregate DSR tendered quantity. 0.2 mcmd was procured through the 2022/23 tender at a cost of £1.4m for part of the winter; had this applied for the whole Winter Period, the cost would have been £2.4m. If 3 mcmd were to be offered in the forthcoming tender at the 2022/23 weighted average price, this would cost £36m.

The proposals seek to enable Class 1 consumers to have two routes open to them to make DSR option offers; either via their registered shipper or directly with NGT and to expand the range of parties who may participate by introducing a longer lead-time D-5 product. The procurement mechanism for DSR that is contracted directly with consumers is proposed to be an expansion of the existing open and transparent tender process that was implemented last winter for shipper DSR options. Further facilitation of shipper DSR options would also be enabled by extending the application of shipper DSR options to include offers made in respect of Class 2 consumers.

“(f) does not unduly preclude the emergence of commercial interruption arrangements”

Feedback received during the development of DSR reforms has demonstrated that the involvement of the gas system operator is needed to enable a market for voluntary gas demand reduction by eligible sites. Therefore, we do not believe that the present proposals to enhance NGT’s DSR scheme would have the effect of preventing separate arrangements being developed between consumers, shippers and suppliers to which NGT is not party.

“(g) minimises distortions and unintended consequences on existing market arrangements and the principle of parties balancing their own positions in the wholesale gas market”

It is proposed that the DSR Methodology accommodates the introduction of a D-5 DSR product to admit parties into the gas DSR market that are willing to reduce demand voluntarily but are unable to achieve such demand reduction within prompt timescales. Exercising DSR 5 days ahead is inherently subject to greater uncertainty in supply and demand forecasts and hence there is a greater likelihood that the price at which exercise takes place is not reflective of supply/demand fundamentals on day D. To minimise such a potential market distortion, it is proposed that the quantities and prices associated with exercise of D-5 DSR would not contribute to calculation of SAP and SMP cashout prices. NGT considers that the principle of parties balancing their own positions in the wholesale gas market would be maintained as NGT would only be able to exercise D-5 where a material (14 mcm) shortfall in supply versus demand is forecast.

There would necessarily be differences in the exercise and settlement arrangements between DSR contracted via a shipper and DSR contracted directly with a consumer. This stems from the fact that shipper DSR is exercised via an energy trade which is not possible with consumer DSR. NGT has sought to align the arrangements for these two consumer routes to market as far as possible to minimise the potential for any market distortions and unintended consequences and notes that either route is open to a consumer.

“(h) ensures that Demand Side Response is procured in a manner consistent with the licensee’s duties under the Act and, in particular, the licensee’s obligation to operate the pipeline system to which this Licence relates in an efficient, economic and co-ordinated manner”.

NGT considers that this DSR principle is furthered by the proposed changes which are designed to encourage voluntary DSR and thus mitigate the risk of a supply shortage escalating to declaration of a Gas Deficit Emergency (GDE). Should a GDE be declared then compulsory firm load shedding

would result in disruption and inefficiency in the operation and use of the network as some parties that would wish to be taking gas would be prevented from doing so.

Specifically in respect of the introduction of a D-5 DSR product, this should be balanced against the possibility that an NGT decision to call demand off the system at D-5 turns out to be unnecessary as the market responds to the D-5 forecast position and more accurate supply/demand information is available closer to the day. NGT considers that on balance it could be beneficial to take precautionary action ahead of time to mitigate the larger risk of a GDE.

NGT notes that some of the other DSR principles listed in SC 9.22.3 will require amendment to permit implementation of these DSR reform proposals, specifically:

“(a) ensures that any party making a Demand Side Response Offer is a party to the Uniform Network Code;

(c) allows the licensee to accept Demand Side Response Offers only where a Gas Balancing Notification is in place or within stage 1 of a Gas Deficit Emergency²;

(d) demonstrates compatibility with existing market arrangements by setting out the manner in which any Demand Side Response Offers accepted by the licensee are to be treated as Eligible Balancing Actions and included in the System Clearing Contract, System Marginal Buy Price and System Marginal Sell Price.”

NGT has written separately to the Authority requesting derogations against these provisions pending a formal Licence change, should the Authority direct implementation of the UNC Modifications 0844 and 0845.

Amendments to the DSR Methodology proposed by NGT post-consultation

NGT proposes to make two minor amendments to the DSR methodology post-consultation; these are:

- Deletion of paragraph 3.2.4 which duplicates paragraph 3.2.2 (and re-number subsequent clauses accordingly); and
- Provide further clarity in clause 4.6 in respect of which DSR exercise actions constitute Eligible Balancing Actions and which contribute to the calculation of cashout prices, with reference to the requirements of SC 9.22.3(d).

² NGT is currently operating under a derogation to allow exercise of DSR where a Margins Notice is in force as well as a Gas Balancing Notification. This derogation was needed to enable implementation of UNC Modification 0822.

Next Steps

NGT proposes to amend the DSR Methodology in line with the marked-up version that is submitted to the Authority and published with this consultation report, subject to the direction of the Authority pursuant to SC 9.22.7 of the NTS Licence.

This consultation report will be published on the [DSR Webpage](#) of NGT's website.

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